

Malaysia

ADD (no change)

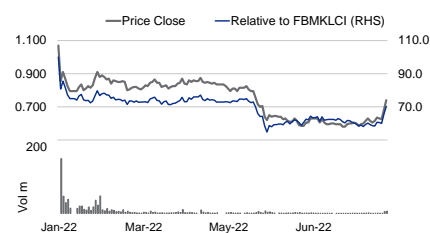
Consensus ratings*: Buy 1 Hold 0 Sell 0

Current price:	RM0.74
Target price:	RM0.80
Previous target:	RM0.80
Up/downside:	8.1%
CGS-CIMB / Consensus:	0.0%
Reuters:	SENH.KL
Bloomberg:	5305 MK
Market cap:	US\$249.7m
	RM1,110m
Average daily turnover:	US\$0.18m
	RM0.81m
Current shares o/s:	1,500m
Free float:	31.3%

*Source: Bloomberg

Key changes in this note

N/A



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	23.3	-8.7	
Relative (%)	17.7	-5.5	

Major shareholders

	% held
SQ Digital Sdn Bhd	58.0
Lim Kim Heng	5.4
Lim Kim Chieng	5.4

Analyst(s)

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Senheng New Retail Bhd

Increasing efficiency to offset rising costs

- We remain positive on Senheng's outlook post-management meeting as sales demand is expected to be healthy and profit margins steady in 2Q22F.
- Its store expansion plan is on track — upgraded six existing outlets in 2Q22, with a target of 21 new/upgraded stores in FY22F to increase per store sales.
- Reiterate Add, with an unchanged TP of RM0.80 (17.4x CY23F P/E).

Sales momentum is expected to be healthy in 2Q22F

We gather that Senheng New Retail's same-store sales growth (SSSG) across 99 of its 105 stores are expected to be positive, while the remaining six outlets could experience contraction in 2Q22 sales due to store closures for upgrading purposes. This ties in with our forecast of c.20% yoy growth in 2Q22F, premised on upbeat sales momentum in Apr/May 22 (partly driven by Raya festive sales and removal of movement restrictions, leading to higher consumer footfall, as well as the one-off RM500 voucher for electrical appliance purchases from the Malaysian Family Flood Relief Program) and a lower base in 2Q21. Note that we have estimated an SSSG of c.7% for Senheng in FY22F, on higher demand for its home appliances and audio products.

Expansion plan remains on track, mostly upgrading existing stores

Senheng is retaining its capex of c.RM160m for its store expansion plan over the next three years — to open 61 new/or upgraded stores by 2024F in the urban and sub-urban areas. This is in line with our FY22-24F capex outlay estimates of c.RM165m; we believe the expansion is a boon for its per store sales and its market position, which we have accounted for in our forecasts. That said, any stronger-than-expected SSSG from its upgraded stores poses an upside risk to our earnings forecasts. Senheng shared that it is also relocating some of its stores to more affluent areas/malls with higher footfall (i.e. one each in Kuchai Lama and Bangsar), which could bode well for future sales, in our view.

Focus on improving operational efficiency to offset rising costs

We expect 70% of Senheng's c.2k-strong staff force (mostly floor staff and drivers) to be affected by the minimum wage hike of RM1,500 per month, effective 1 May 22, coupled with rising input costs, which could put upward pressure on its cost structure. However, Senheng intends to offset the rising costs by focusing on improving its internal cost efficiency and store productivity. Initiatives include enhancing productivity by having its trucks cover wider areas (i.e. more delivery orders fulfilled per truck) and increasing average transaction sizes per store through store enhancements, with better in-store designs and wider product selection. Hence, we expect margins to remain steady (Fig 7).

Reiterate Add, with an unchanged TP of RM0.80

With no major surprises, we retain our FY22-24F forecasts pending the release of its 2Q22 results on 26 Aug 22. Reiterate Add, with an unchanged TP of RM0.80 (17.4x CY23F P/E, a 20% discount to CGS-CIMB's consumer discretionary sector's 5-year mean P/E of 21.8x, to account for the competitive nature of the retail E&E sector). We like Senheng for its: i) leading position in consumer electronics, ii) backed by a loyal customer base of 3.37m PlusOne members, and iii) wider product offerings vs. peers.

Financial Summary	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue (RMm)	1,295	1,444	1,602	1,727	1,863
Operating EBITDA (RMm)	114.0	127.0	142.5	153.6	174.1
Net Profit (RMm)	54.69	65.05	68.41	69.53	77.61
Core EPS (RM)	0.036	0.043	0.046	0.046	0.052
Core EPS Growth	20.4%	18.9%	5.2%	1.6%	11.6%
FD Core P/E (x)	20.30	17.06	16.22	15.96	14.30
DPS (RM)	0.008	0.013	0.014	0.014	0.016
Dividend Yield	1.08%	1.76%	1.85%	1.88%	2.10%
EV/EBITDA (x)	9.62	8.78	6.28	5.90	5.23
P/FCFE (x)	21.30	46.28	NA	20.80	16.09
Net Gearing	(8.2%)	2.2%	(39.3%)	(34.0%)	(30.6%)
P/BV (x)	6.68	4.75	2.02	1.86	1.70
ROE	37.8%	32.5%	17.5%	12.1%	12.4%
CGS-CIMB/Consensus EPS (x)			0.99	1.01	0.99

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Increasing efficiency to offset rising costs

Other meeting highlights:

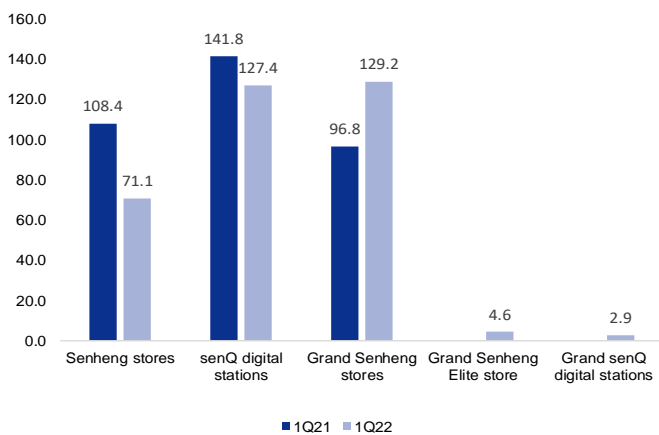
- Moving forward, Senheng believes that the launch of its S-Reward Centre in Sep 22 via its Senheng App with targeted marketing efforts could boost its future sales in subsequent quarters as well, which we have not accounted for in our forecasts.
- Senheng shared that it aims to achieve a market share of c.30% (from an estimated c.15% currently) of the Malaysia’s consumer electronics sector by 2025F.
- Also, we gather that Senheng is currently looking to build another warehouse to cater for future demand, with an additional c.RM20m capex (which we have not accounted for in our capex outlay estimates).

Re-rating catalysts and downside risks

Re-rating catalysts: A strong recovery in footfall and lower-than-expected operating expenses.

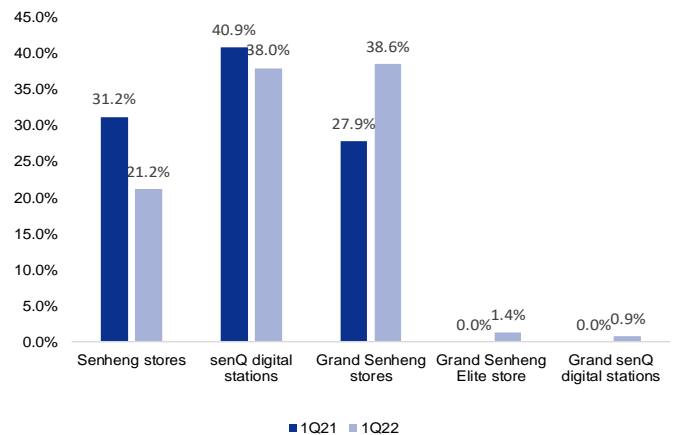
Downside risks: supply disruptions, slowdown in consumer E&E sales, sharp rise in operating expenses and intensifying competition.

Figure 1: Revenue breakdown by physical store format (RM m)



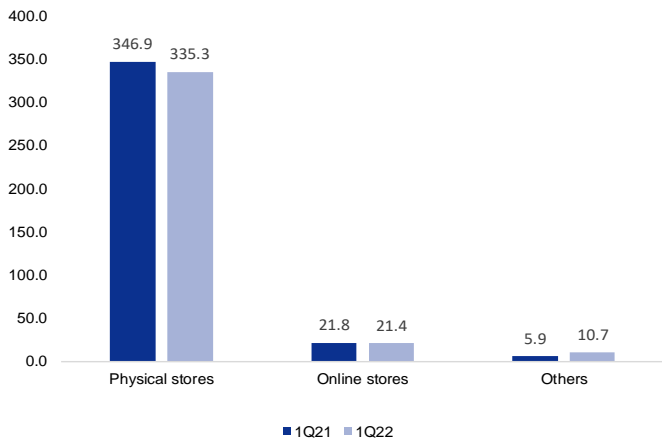
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 2: Revenue breakdown by physical store format (%)



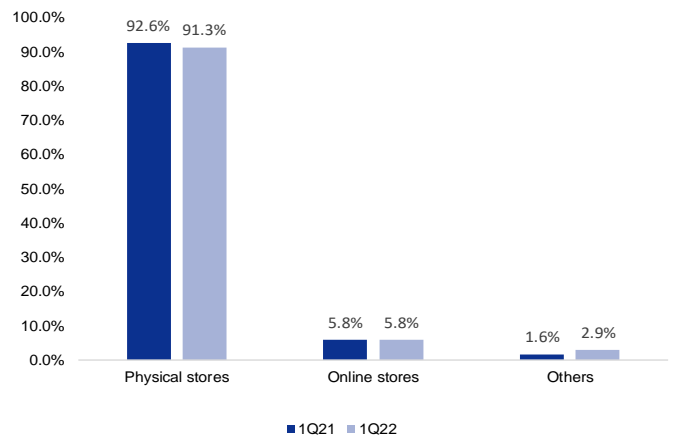
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 3: Revenue breakdown by retail channel (RM m)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 4: Revenue breakdown by retail channel (%)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 5: Senheng's store count as of 1Q22 (Total: 104)

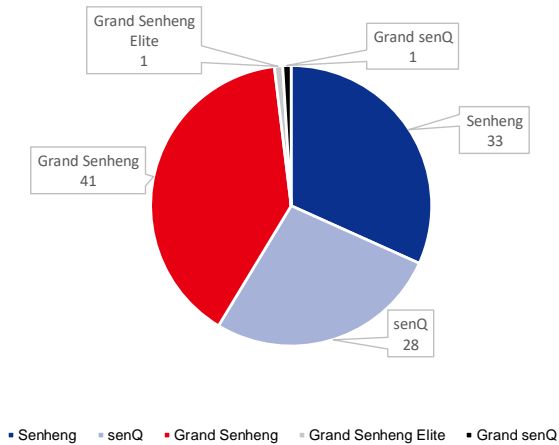
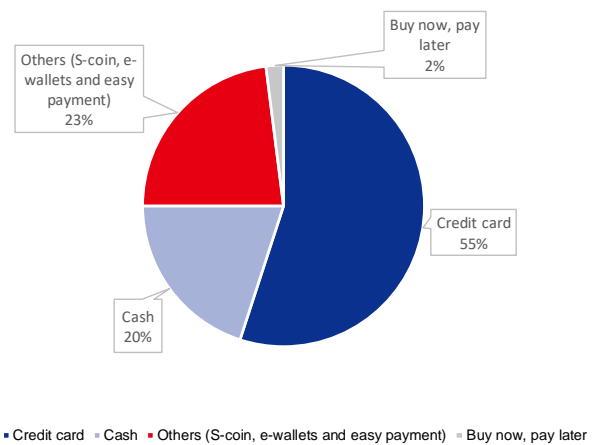
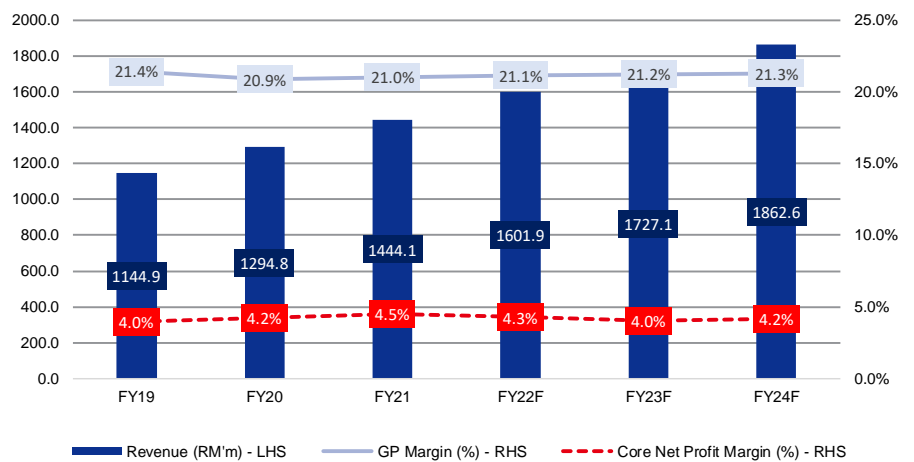


Figure 6: Senheng's sales breakdown by mode of payment (%)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 7: Senheng's key performance metrics annual trend



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS



ESG in a nutshell

In 2013, Senheng launched its e-waste recycling programme to encourage and facilitate the disposal of electronic waste in a responsible and safe manner. Through this programme, customers can bring their non-bulky electronic appliances, such as personal computers, mobile phones, tablet computers, projectors and media players, to any of Senheng's physical stores for recycling at no charge. In addition, Senheng collects for recycling at no added charge any unwanted electronic appliances from customers' premises when it delivers customers' purchases. The collected electronic waste will then be sent to licensed e-waste recycling centres for processing.

Keep your eye on

Currently, only two out of Senheng's seven directors are female. This is below the Malaysian Code of Corporate Governance's recommendation of at least 30% female directors.

Implications

While we view this negatively, Senheng has set a target of appointing additional female directors within two years of its listing date (25 Jan 2022).

ESG highlights

Senheng was able to grow its revenue base by a CAGR of 10.1%, despite gradually closing physical outlets over 2016-2021 (it had 105 outlets as at end-FY21 vs. 125 at end-FY16). We also note that Senheng has been aggressively expanding its online sales business, with online sales accounting for 8.6% of its revenue in FY21.

Implications

We are positive on this matter as the company is showing efforts to reduce its energy consumption (in terms of water and electricity) with a lower number of physical outlets in operation. However, it has yet to disclose any data related to its energy usage; thus, we are unable to do any analysis on this matter.

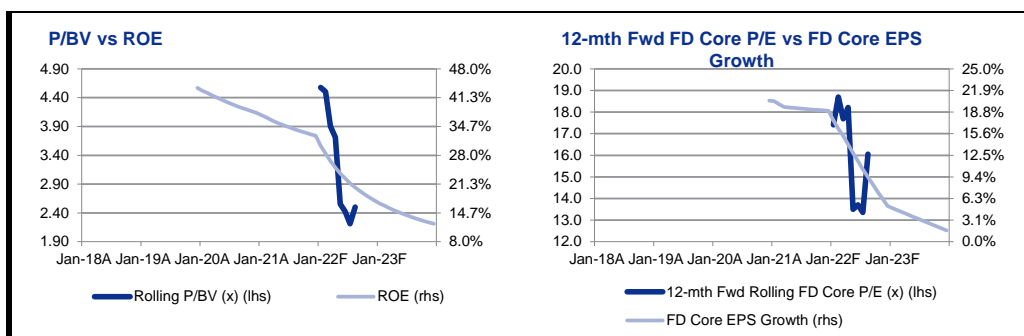
Trends

Senheng has initiated various environmentally friendly programmes, such as "Tree Planting Project" (since 2010), "Paperless Initiatives" (since 2015), "E-waste Recycling Programme" (since 2013) and "Adoption of Bio-Degradable Plastic" (since 2003).

Implications

We are positive on the company's efforts for environmental sustainability. However, it has yet to disclose any data related to its energy usage; thus, we are unable to do any analysis on this matter.

SOURCES: CGS-CIMB RESEARCH, REFINITIV

BY THE NUMBERS

Profit & Loss

(RMm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Net Revenues	1,295	1,444	1,602	1,727	1,863
Gross Profit	270	304	338	367	396
Operating EBITDA	114	127	142	154	174
Depreciation And Amortisation	-37	-39	-50	-60	-70
Operating EBIT	77	88	92	93	104
Financial Income/(Expense)	-4	-3	-3	-2	-2
Pretax Income/(Loss) from Assoc.	0	0	0	0	0
Non-Operating Income/(Expense)	0	0	0	0	0
Profit Before Tax (pre-EI)	74	85	89	91	102
Exceptional Items					
Pre-tax Profit	74	85	89	91	102
Taxation	-18	-19	-21	-22	-25
Exceptional Income - post-tax					
Profit After Tax	56	65	68	70	78
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax	-1	-0	0	0	0
Net Profit	55	65	68	70	78
Recurring Net Profit	55	65	68	70	78
Fully Diluted Recurring Net Profit	55	65	68	70	78

Cash Flow

(RMm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
EBITDA	114.0	127.0	142.5	153.6	174.1
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(45.3)	(49.8)	(57.4)	(26.6)	(28.8)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	38.7	41.5	53.1	62.1	72.0
Other Operating Cashflow	(40.3)	(42.5)	(53.1)	(62.1)	(72.0)
Net Interest (Paid)/Received	(2.1)	(1.9)	(1.3)	(0.0)	(0.0)
Tax Paid	(6.4)	(20.3)	(21.0)	(22.0)	(24.5)
Cashflow From Operations	58.6	54.1	62.8	105.1	120.7
Capex	(7.5)	(22.8)	(55.0)	(55.0)	(55.0)
Disposals Of FAs/subsidiaries	21.9	6.5	0.0	0.0	0.0
Acq. Of Subsidiaries/investments	(20.7)	(16.9)	0.0	0.0	0.0
Other Investing Cashflow	(5.0)	1.8	2.7	3.2	3.3
Cash Flow From Investing	(11.3)	(31.3)	(52.3)	(51.8)	(51.7)
Debt Raised/(repaid)	4.8	1.3	(57.0)	0.0	0.0
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(12.0)	(12.0)	(20.5)	(20.9)	(23.3)
Preferred Dividends					
Other Financing Cashflow	(26.6)	(29.3)	231.1	(45.0)	(49.3)
Cash Flow From Financing	(33.8)	(40.0)	153.6	(65.9)	(72.6)
Total Cash Generated	13.5	(17.3)	164.0	(12.5)	(3.6)
Free Cashflow To Equity	52.1	24.0	(46.5)	53.4	69.0
Free Cashflow To Firm	49.4	24.7	11.7	53.4	69.0

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd
Balance Sheet

(RMm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Cash And Equivalents	68.8	51.7	215.8	203.2	199.7
Total Debtors	74.3	97.2	109.7	118.3	127.6
Inventories	211.4	253.9	294.2	316.8	341.5
Total Other Current Assets	13.0	37.3	37.3	37.3	37.3
Total Current Assets	367.4	440.1	657.0	675.7	706.0
Fixed Assets	96.4	108.4	154.4	193.1	229.2
Total Investments	15.1	2.9	2.9	2.9	2.9
Intangible Assets	0.0	0.0	0.0	0.0	0.0
Total Other Non-Current Assets	178.0	181.4	228.1	242.2	247.3
Total Non-current Assets	289.5	292.6	385.4	438.2	479.4
Short-term Debt	14.5	16.9	0.0	0.0	0.0
Current Portion of Long-Term Debt					
Total Creditors	124.8	135.5	138.5	149.1	160.7
Other Current Liabilities	114.1	107.4	121.4	125.0	126.7
Total Current Liabilities	253.4	259.9	259.9	274.2	287.5
Total Long-term Debt	40.7	40.1	0.0	0.0	0.0
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	188.0	194.2	228.4	237.0	240.9
Total Non-current Liabilities	228.7	234.2	228.4	237.0	240.9
Total Provisions	8.6	5.1	5.1	5.1	5.1
Total Liabilities	490.7	499.1	493.4	516.2	533.4
Shareholders' Equity	166.2	233.7	549.1	597.7	652.1
Minority Interests					
Total Equity	166.2	233.7	549.1	597.7	652.1

Key Ratios

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue Growth	13.1%	11.5%	10.9%	7.8%	7.8%
Operating EBITDA Growth	12.5%	11.5%	12.2%	7.8%	13.3%
Operating EBITDA Margin	8.80%	8.80%	8.90%	8.90%	9.35%
Net Cash Per Share (RM)	0.01	-0.00	0.14	0.14	0.13
BVPS (RM)	0.11	0.16	0.37	0.40	0.43
Gross Interest Cover	14.32	17.69	16.93	18.14	18.54
Effective Tax Rate	24.4%	22.8%	23.5%	24.0%	24.0%
Net Dividend Payout Ratio	21.9%	30.0%	30.0%	30.0%	30.0%
Accounts Receivables Days	20.91	21.66	23.57	24.09	24.16
Inventory Days	68.41	74.46	79.18	81.97	82.16
Accounts Payables Days	44.42	41.65	39.57	38.57	38.66
ROIC (%)	26.8%	26.3%	21.2%	16.6%	16.5%
ROCE (%)	40.6%	35.0%	22.6%	16.9%	17.2%
Return On Average Assets	9.39%	9.83%	8.02%	6.63%	6.96%

Key Drivers

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue Growth %Physical stores	8.9%	9.2%	12.4%	7.1%	6.9%
Revenue Growth %Online stores	154.6%	29.8%	-14.8%	1.0%	1.0%
Revenue Growth %Others	-19.1%	63.2%	50.0%	45.0%	40.0%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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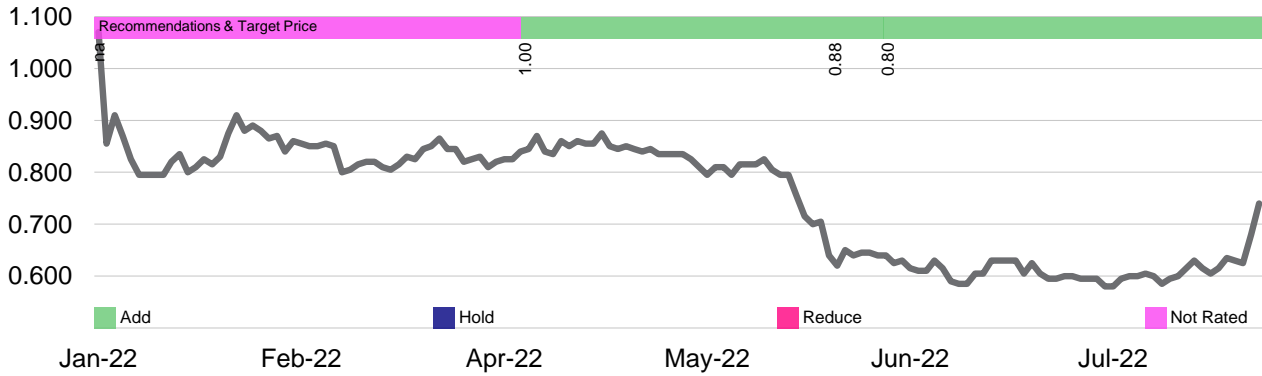
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Distribution of stock ratings and investment banking clients for quarter ended on 30 June 2022		
643 companies under coverage for quarter ended on 30 June 2022		
	Rating Distribution (%)	Investment Banking clients (%)
Add	68.4%	0.8%
Hold	24.6%	0.0%
Reduce	7.0%	0.2%

Spitzer Chart for stock being researched (2 year data)

Senheng New Retail Bhd (5305 MK)
— Price Close



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- Add** The stock's total return is expected to exceed 10% over the next 12 months.
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